Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Message Text

UNCLASSIFIED

PAGE 01 BRASIL 03354 201647Z

46
ACTION XMB-04

INFO OCT-01 AF-08 ARA-10 EUR-12 EA-09 ISO-00 COME-00 AID-05

TRSE-00 IGA-02 OMB-01 CAB-05 CIAE-00 DODE-00 DOTE-00

EB-07 INR-07 NSAE-00 FAA-00 MC-02 /073 W
---------- 017068
P R 201420Z APR 76
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 5124
INFO AMEMBASSY PARIS
AMEMBASSY SEOUL
AMEMBASSY BONN
AMEMBASSY JOHANNESBURG
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

UNCLAS BRASILIA 3354

E.O. 11652: N/A
TAGS: BEXP, EAIR, BR
SUBJECT: FRENCH EFFORTS TO SELL A-300B AIRBUSES

REF: (A) 75 BRASILIA A-139, AUGUST 14, (B) RIO DE JANEIRO 1010

FOLLOWING TELEGRAM PREPARED BY AMCONGEN RIO DE JANEIRO, EMBASSY CONCURS.
SUMMARY

FRENCH ARE SEEKING TO SELL A-300 B AIRBUS TO BRAZILIAN AIRLINES. PRESIDENT GEISEL'S TRIP TO FRANCE MAY FIGURE IN NEGOTIATIONS OVER AIRBUS PURCHASE. THUS POLITICAL FACTORS WILL PLAY A ROLE IN JET PURCHASING DECISION. BOEING AND LOCKHEED REPS REPORT DRAMATIC CHANGES IN LAST FEW MONTHS IN BRAZILIAN MARKET FOR JET LINERS. REASONS ARE: 1) TRAFIC GROWTH RESUMPTION IS EARLIER AND STRONGER THAN ANTICIPATED; 2) NEW PLAN TO REALLOCATE DOMESTIC MARKET SHARE TO EITHER VASP OR TRANSBRASIL IN WAKE OF VARIG/CRUZEIRO MERGER (REF A); 3) PLAN BY AIRLINES TO SELL HIGH RESALE VALUE B.737. EXCELLENT
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 BRASIL 03354 201647Z

CREDIT TERMS APPARENTLY BEING OFFERED BY FRENCH FOR AIRBUS.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

ADDITIONAL FACTOR IS PERCEIVED PASSENGER APPELA OF A-300B FOR TRANSBRASIL AND VASP. VARIG/CRUZEIRO IS NOT LOOKING AT FIRST BRAZILIAN AIRLINE. MOST LIKELY POTENTIAL PURCHASES ARE AIRBUS RIGHT NOW BUT SITUATION MAY CHANGE. END SUMMARY

1. BRAZILIAN CIVIL AVIATION RESUMED ITS APPROXIMATE 15 PERCENT PASSENGER GROWTH RATE AT END OF 1975 IN SPITE OF SLOWDOWN IN ECONOMY. THUS FAR 1976 TRAFFIC GROWTH IS AT APPROXIMATELY 15 PERCENT. TRAFFIC GROWTH IS STRONGER THAN ANTICIPATED SEVERAL MONTHS AGO. THIS RATE OF GROWTH WILL CAUSE CAPACITY PROBLEMS AT VASP BY 1977 AND AT VARIG/CRUZEIRO SHORTLY AFTER. VASP GROWTH FOR YEAR WAS 11 PERCENT. BOEING REPS REPORT THAT VASP CURRENT UTILIZATION OF 737 FLEET IN TERMS OF BLOCK TIME IS HIGHEST IN WORLD. TRANSBRASIL IS ALSO REPORTED TO BE OPERATING AT MUCH HIGHER LOAD FACTOR THAN PREVIOUSLY. CRUZEIRO DO SUL HAS RAISED LOAD FACTOR SUBSTANTIALLY FROM 48 PERCENT TO 54 PERCENT SINCE TAKEOVER BY VARIG.

2. AFTER VARIG PURCHASE OF CURZEIRO DO SUL, IN MID 1975 (REFAIR) CIVIL AVIATION AUTHORITIES TOOK STEPS TO AVOID POSSIBILITY OF CRUZEIRO/VARIG MONOPOLIZING BRAZILIAN DOMESTIC AIR TRAVEL MARKET. A LAW OF AUGUST, 1975 ALLOCATED 40 PERCENT OF DOMESTIC MARKET TO VARIG/CRUZEIRO DO SUL AND REMAINDER TO VASP AND TRANSBRASIL. THIS ALLOCATION WOULD BE ACCOMPALISHED BY HOLDING VARIG/CRUZEIRO DOMESTIC PASSENGER TRAFFIC STEADY IN ABSOLUTE TERMS WHILE TRANSBRASIL AND VASP TOOK THE EXPECTED GROWTH IN THE MARKET. THUS, OVER TIME THE RELATIVE POSITIONS OF THE AIRLINES WERE EXPECTED TO CHANGE SO THAT VARIG/ CRUZEIRO, TRANSBRASIL, AND VASP WOULD ALL HAVE AN OPPORTUNITY TO COMPETE FOR MARKET SHARES THAT ARE SUFFICIENT TO KEEP ALL AIRLINES FINANCIALLY VIABLE.

3. IN ESSENCE, VASP AND TRANSBRASIL ARE NOW COMPTETING FOR THE INCREMENTAL MARKET. TRANSBRASIL PROBABLY IS NOT FINANCIALLY VIABLE WITHOUT A LARGE SHARE OF THIS GROWTH. VASP ON THE OTHER HAND: 1) BELIEVES THAT IF ITS OWN MARKET SHARE DROPS IT WILL NOT BE ABLE TO WITHSTAND THE VARIG/CRUZEIRO COMPETITION AND; 2) WOULD LIKE TO BUY TRANSBRASIL (AND HAS PUBLICLY STATED SO ON SEVERAL OCCASIONS) IN ORDER TO GET TRANSBRASIL'S MRKET SHARE. BOTH TRANSBRASIL AND VASP SEE THE COMPETITION UNCLASSIFIED

OVER THE INCREMENTAL GROWTH AS CRUCIAL.

4. ONE WAY TO OBTAIN THIS INCREMENTAL GROWTH IS TO ACQUIRE CAPACITY TO CARRY IT. THE MERE FACT OF INCREASED CAPACITY MAY FORCE GOB REGULATORY AUTHORITIES TO AWARD SUFFICIENT MARKET SHARE TO FILL THE PLANES. ON THE OTHER HAND BOTH AIRLINES KNOW THAT THE GOVERNMENT WILL ALLOW ONLY ONE TO BUY EXTRA CAPACITY. THEREFORE BOTH AIRLINES ARE ATTEMPTING

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

TO BUY ADDITIONAL CAPACITY FIRST. IN FACT, TRANSBRASIL
HAS PUBLICLY STATED ITS INTENTION TO REBEGIN NEGOTIATIONS
TF PURCHASE AN A-300.

5. FRENCH MANUFACTURERS OF THE A-300B AIRBUS HAVE SOUGHT
TO TAKE ADVANTAGE OF THE NEW MARKET OPPORTUNITY AND HAVE
APPROACHED VASP AND TRANSBRASIL. THEY HAVE APPARENTLY
OFFERED BOTH AIRLINES EXTREMELY GENEROUS CREDIT TERMS-
12 YEAR LOANS WITH MORATORIUMS AT 8-8 1/2 PERCENT INTEREST
(REFTL B). AT THE SAME TIME TRANSBRASIL IS ENGAGED IN
NEGOTIATIONS WITH BRANIFF TO LEASE TWO B-727W ON A LONG TERM
ARRANGEMENT WITH A DALLAS BANCK. CURRENTLY, BOTH MAJOR U.S.
COMPETITORS (LOCKHEED AND BOEING) HAVE CONCENTRATED ON
VASP AS A PROSPECT FOR JET SALES BUT NOT FOREGETTING
TRANSBRASIL. AIRBUS INDUSTRIES, APPARENTLY LESS CONCERNED
ABOUT FINANCING VIABILITY IS PURSUING LEADS AT BOTH VASP
AND TRANSBRASIL. (MCDONNELL DOUGLAS HAS CONTACTED VASP
BUT DOES NOT APPEAR TO BE AGGRESSIBELY SELLING AT THE
PRESENT TIME DUE TO INABILITY TO DELIVER THEIR 2-ENGINE
SIDE BODY AIRCRAFT UNTIL 1978).

6. PART OF THE ARRANGEMENT OFFERED BY AIRBUS INDUSTRIES TO
VASP IS TO PURCHASE SEVERAL B-737,S FOR AIR FRANCE WHILE
VASP PURCHASES A-300B. THIS EXCHANGE WILL GIVE VASP A
MORE EVEN INCREMENT IN CAPACITY AND ALLOW VASP TO BUY
3-4 PLANES WITH LOW BALANCE OF PAYMENTS AND FINANCIAL
STRAIN. (THE IRONY OF AIR FRANCE BUYING B-737'S INSTEAD OF
A-300B DOES NOT SEEM TO HAVE SWAYED VASP.) THIS UNIQUE
OFFER MAY SERIOUSLY DAMAGE THE U.S. POSITION IN THE COMMERCIAL
JET LINER MARKET IN BRAZIL. VIRTUALLY ALL JETS OPERATED ON
REGULAR SCHEDULES IN BRAZIL ARE CURRENTLY U.S. MANUFACTURED.)
FURTHER, THIS MOVE WOULD SET THE STAGE FOR FUTURE A-300B
PURCHASES BY VASP OR TRANSBRASIL. FURTHER, THE MARKETING
UNCLASSIFIED

ADVANTAGE GAINED BY THE AIRLINE OWNING THE A-300B WOULD
PUT PRESSURE ON OTHER LINES TO PURCHASES A-300B'S AS THEIR
NEXT FLEET ADDTION.

7. THE PRESIDENT OF BRAZIL PLANS TO GO TO FRANCE IN A WIDELY
PUBLICIZED TRIP IN EARLY MAY. SOME AIRLINE OBSERVERS THINK
THAT AN AIRBUS SALE MAY BE ANNOUNCED AT THAT TIME. THE
CURRENT BRAZILIAN AMBASSADOR TO PARIS IS A FORMER FINANCE
MINISTER AND APOWERFUL FIGURE IN THE STATE OF SAO PAULO
(THE STATE IS THE OWNER OF VASP) AND IS THOUGHT TO BE
VIGOROUSLY PROMOTING BRAZLIAN-FRENCH TRADE.

8. ACTION REQUESTED: IT WOULD BE HELPFUL TO KNOW APPROXIMATE
CREDIT TERMS AND OTHER RELATED AGREEMENTS USED TO PROMOTE
SALE OF A-300B IN OTHER COUNTRIES. CONGEN RIO IS AWARE OF

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

AIRBUS SALES TO KOREAN AIRLINES, LUFTHANSA AND SUD-AFRIKAANSE
AIRLINES AMONG OTHERS. SUCH INFORMATION WOULD ASSIST IN
SEPARATING FACT FROM FICTION IN CURRENT SITUATION.
EXIMBANK OR POSTS IN RELEVANT COUNTRIES MAY BE ABLE TO
PROVIDE INFORMATION.
CRIMMINS

UNCLASSIFIED

NNN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CIVIL AVIATION, SALES, AIRLINES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BRASIL03354
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760149-0443
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760445/aaaabltm.tel
Line Count: 175
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION XMB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 BRASILIA A-139, 76 RIO DE JANEIRO 1010
Review Action: RELEASED, APPROVED
Review Authority: oatisao
Review Comment: n/a
Review Content Flags:
Review Date: 13 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 JUL 2004 by SilvaL0>; APPROVED <20 SEP 2004 by oatisao>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRENCH EFFORTS TO SELL A-300B AIRBUSES
TAGS: BEXP, EAIR, BR, FR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006